

## Message Text

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ACTION EUR-12

INFO OCT-01 IO-10 ISO-00 CIAE-00 DODE-00 PM-03 H-02 INR-07

L-02 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06

SAM-01 OMB-01 SAJ-01 COME-00 EB-07 LAB-04 SIL-01

TRSE-00 /082 W

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R 231743Z MAY 75

FM AMEMBASSY LISBON

TO SECSTATE WASHDC 2879

INFO AMEMBASSY BONN

USMISSION EC BRUSSELS

AMEMBASSY LONDON

AMEMBASSY MADRID

AMEMBASSY PARIS

USMISSION OECD PARIS

USMISSION GENEVA

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E.O. 11652: N/A

TAGS: ECON, PO

SUBJ: GOVERNMENT AUSTERITY MEASURES

SUMMARY: GOP HAS FINALLY BEGUN IMPLEMENTING CALLS FOR AUSTERITY. ONE OF PRINCIPAL MEANS IS TIGHTENED CREDIT RESTRICTIONS. TIGHTENED AUTO CREDIT RESTRICTIONS ARE UNDER ATTACK AND MAY BE EASED, AS AUTO SALES ARE IN TAILSPIN. MEANWHILE, BANK OF PORTUGAL HAS QUIETLY IMPOSED STRICT GUIDELINES FOR INSTALLMENT CREDIT AND MORE GENERAL GUIDELINES ON CREDIT FOR IMPORTS, DEPENDING ON ESSENTIALITY AND DEGREE TO WHICH DOMESTIC PRODUCTION CAN MEET NEED. TIGHTENED RESTRICTIONS ON PORTUGUESE TOURIST SPENDING ABROAD EXPECTED. END SUMMARY

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1. IN RECENT WEEKS, GOP HAS FINALLY BEEN FOLLOWING UP ITS

LONG-STANDING CALLS FOR AUSTERITY WITH DEFINITE ACTIONS. EXCEPT FOR RECENTLY ANNOUNCED SALARY FREEZES AND MAXIMUM NATIONAL SALARY (LISBON 2697 NOTAL), PRINCIPAL METHOD HAS BEEN RESTRICTION ON CREDIT.

2. AUTO CREDIT: USE OF CREDIT RESTRICTIONS TO REDUCE WHAT GOVERNMENT CONSIDERS SUPERFLUOUS CONSUMPTION WAS HERALDED BY IMPOSITION IN EARLY APRIL OF GREATLY TIGHTENED RESTRICTIONS ON AUTOMOBILE CREDIT (LISBON 2023 NOTAL). SALES FROM THIS IMPORTANT SECTOR (LISBON A-119 NOTAL) HAD HELD UP WELL, DESPITE VERY HIGH PRICES AND DEEPENING ECONOMIC CRISIS, IN LARGE PART BECAUSE BENEFICIARIES OF LAST YEAR'S LARGE WAGE INCREASES HAVE BEEN PUTTING THEIR MONEY IN SOMETHING WHOSE PRICE IS LIKELY TO SKYROCKET AND WHOSE FUTURE EASY AVAILABILITY IS UNSURE. HOWEVER, SALES WERE STARTING TO BE PINCHED BY LIQUIDITY CRUNCH -- ESPECIALLY AS AUTO SALES IS UNDERCAPITALIZED SECTOR RELYING HEAVILY ON LINES OF CREDIT AND ON HEAVY SALES VOLUME. ONE FORD AGENCY, FOR EXAMPLE, REPORTEDLY NEEDED TO SELL ELEVEN CARS PER DAY JUST TO MEET ITS CASH FLOW NEEDS.

3. TIGHTENED AUTO RESTRICTIONS HAVE REPORTEDLY SENT SALES INTO A TAILSPIN, WITH LOCAL GENERAL MOTORS SUBSIDIARY REPORTING 60 PERCENT DROP IN SALES FROM LAST YEAR'S LEVEL. SALESMEN AND AUTO ASSEMBLERS FROM THE FIRST HAVE BEEN ACTIVELY SEEKING EASING OF RESTRICTIONS, BUT UNTIL RECENTLY ASSEMBLY WORKERS AT LEAST PUBLICLY ACCEPTED MEASURES. HOWEVER, IN MAY 15 MEETING AUTO WORKERS APPROVED PROPOSAL WHOSE MAJOR FEATURES WOULD BE INCREASING PRICE RANGE OF CARS ELIGIBLE FOR LOWER DOWN PAYMENTS (TO \$6,000 FOR ONE-THIRD DOWN, AND \$8,800 FOR ONE-HALF DOWN), AND GRANTING 10 PERCENT DOWN, 36 MONTHS PAYMENT TERMS FOR TAXIS AND COMMERCIAL VEHICLES.

4. AUTO CREDIT RESTRICTIONS ARE STILL UNDER GOVERNMENT REVIEW WITH ALL OUR SOURCES EXPECTING IMMINENT CHANGES.

5. INSTALLMENT CREDIT: BANK SOURCES HAVE CONFIRMED TO US THAT BANK OF PORTUGAL (BOP) HAS ISSUED CLEAR GUIDELINES TO COMMERCIAL BANKS CONCERNING INSTALLMENT CREDIT FOR COMMERCIAL, INDUSTRIAL, AND AGRICULTURAL TRANSPORT VEHICLES; MOTOR SCOOTERS AND MOTOR-LIMITED OFFICIAL USE

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CYCLES; AND HOME ELECTRIC AND ELECTRONIC PRODUCTS AND FURNITURE (BOTH WHOLESALE AND RETAIL). BOP ALSO REPORTEDLY ISSUED MORE GENERAL GUIDELINES ABOUT "SELECTIVE CREDIT." ALL THESE GUIDELINES HAVE BEEN CLOSELY HELD AND NOT OFFICIALLY ANNOUNCED.

6. IMPORT CREDIT PRIORITIES: BOP HAS ISSUED TO BANKS EVEN MORE TIGHTLY-HELD LISTS OF IMPORTABLE GOODS, CLASSIFIED ACCORDING TO GOP EVALUATION OF THEIR ESSENTIALITY

AND DEGREE TO WHICH DOMESTIC PRODUCTION CAN FILL INTERNAL DEMAND. LISTS ARE REPORTEDLY TO SERVE AS GENERAL GUIDELINES TO LIKELIHOOD OF BOP DISCOUNTING BANK LOANS, WITH NO SPECIFIC LIMITATIONS GIVEN.

7. TOURIST SPENDING: RUMORS HAVE BEEN RIFE FOR WEEKS ABOUT IMMINENT RESTRICTIONS ON PORTUGUESE TOURISTS ABROAD. ALTHOUGH RUMORS HAVE INCLUDED POSSIBLE RESTRICTIONS ON NUMBER OF TRIPS WHICH COULD BE MADE PER YEAR, MORE LIKELY IS RESTRICTION ON AMOUNT OF MONEY WHICH COULD ANNUALLY BE SPENT ABROAD. MOST PROBABLE FIGURE IS 20,000 ESCUDOS (\$785), CURRENT LIMIT FOR ANY SINGLE TRIP OVER THREE DAYS DURATION.

8. EMBASSY HAS RECEIVED REPORTS THAT LOCAL TRAVEL AGENTS ARE CURRENTLY HOLDING UP APPROVAL FOR TRIPS BY PORTUGUESE NATIONALS IN EXPECTATION OF NEW RESTRICTIONS. BOP IS REPORTEDLY ALREADY REQUIRING TRAVELERS TO FILE COMPLETE ITINERARY WITH PRICES AND CONFIRMATIONS.

9. COMMENT: GOVERNMENT HAS BEEN TALKING AUSTERITY AT LEAST SINCE LAST AUGUST, BUT THESE AND SALARY MEASURES ARE FIRST REAL ATTEMPTS TO IMPLEMENT AUSTERITY PROGRAM.

10. SPECIFIC CREDIT GUIDELINES SUBJECT OF LISBON A-131 (NOTAL). CARLUCCI

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